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### Feature Article - Analytical Living Cost Indexes for Selected Australian Household Types: Update to June 2003

#### SUMMARY

This article updates the analytical living cost indexes for selected Australian households previously published in the AEI<sup>1</sup>. These price indexes are designed specifically to measure the impact of changes in prices on the out-of-pocket living costs experienced by four categories of Australian households. The indexes now cover the period from June quarter 1998 up to and including the June quarter 2003.

Using the principal source of household income to categorise households, the four household types for which these indexes have been constructed are: Employee households, Age pensioner households, Other government transfer recipient households, and Self-funded retiree households.

These indexes represent the conceptually preferred measures for assessing the impact of changes in prices on the disposable incomes of households. In other words, these indexes are particularly suited for assessing whether the disposable incomes of households have kept pace with price changes or not. The Australian Consumer Price Index (CPI), on the other hand, is designed specifically to measure price inflation for the household sector as a whole and, as such, is not the conceptually ideal measure for assessing the impact of price changes on the disposable incomes of households.

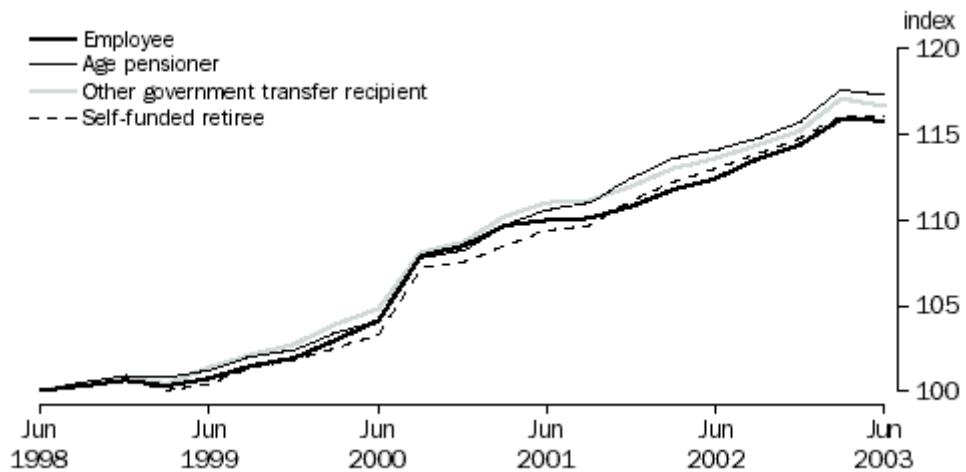
Over the twelve months to June 2003, changes in living costs ranged from a low of 2.7% (experienced by Self-funded retiree households) to a high of 3.0% (experienced by Employee households). The CPI rose by 2.7 % over the same period. Over the five years to June 2003, the changes in living costs for all four household types is similar to the changes in the CPI over the same period.

Details of the selected household types, their expenditure patterns and relationship between these indexes and the CPI are provided in the earlier AEI articles (see footnote 1).

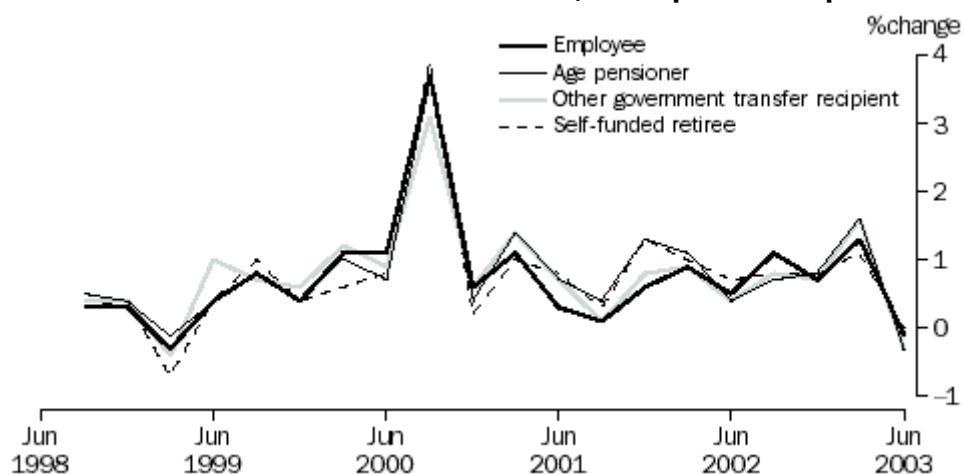
#### RESULTS

The index series for the various household types from June quarter 1998 to June quarter 2003 are shown in Chart 1 and quarterly percentage changes in the indexes in Chart 2. The data on which the charts are based are provided in Table 1.

**CHART 1: INDEX NUMBERS BY HOUSEHOLD TYPE, June quarter 1998 =100.0**



**CHART 2: PERCENTAGE CHANGE, from previous quarter**



**TABLE 1: LIVING COST INDEXES AND THE CPI**

Quarter	Living cost indexes(a)				CPI(b)	CPI(c)
	Employee	Age pensioner	Other government transfer recipient	Self-funded retiree		
INDEX NUMBERS						
1998						
June	100.0	100.0	100.0	100.0	121.0	100.0
September	100.3	100.5	100.4	100.3	121.3	100.2
December	100.6	100.9	100.8	100.7	121.9	100.7
1999						
March	100.3	100.8	100.9	100.0	121.8	100.7
June	100.7	101.2	101.4	100.4	122.3	101.1
September	101.5	102.0	102.1	101.4	123.4	102.0
December	101.9	102.4	102.7	101.8	124.1	102.6
2000						
March	103.0	103.4	103.9	102.4	125.2	103.5
June	104.1	104.1	104.8	103.2	126.2	104.3
September	107.9	107.8	108.1	107.2	130.9	108.2
December	108.5	108.2	108.7	107.4	131.3	108.5
2001						
March	109.7	109.7	110.2	108.5	132.7	109.7

June	110.0	110.5	111.0	109.4	133.8	110.6
September	110.2	110.9	111.1	109.7	134.2	110.9
December	110.8	112.3	112.0	111.1	135.4	111.9
2002						
March	111.8	113.5	113.0	112.2	136.6	112.9
June	112.4	114.0	113.5	113.0	137.6	113.7
September	113.6	114.8	114.4	113.9	138.5	114.5
December	114.4	115.7	115.2	114.8	139.5	115.3
2003						
March	115.9	117.6	117.1	116.1	141.3	116.8
June	115.8	117.2	116.7	116.1	141.3	116.8

% CHANGE FROM PREVIOUS QUARTER

1998						
September	0.3	0.5	0.4	0.3	0.2	na
December	0.3	0.4	0.4	0.4	0.5	
1999						
March	-0.3	-0.1	0.1	-0.7	-0.1	na
June	0.4	0.4	1.0	0.4	0.4	
September	0.8	0.8	0.7	1.0	0.9	
December	0.4	0.4	0.6	0.4	0.6	
2000						
March	1.1	1.0	1.2	0.6	0.9	na
June	1.1	0.7	0.9	0.8	0.8	
September	3.7	3.6	3.1	3.9	3.7	
December	0.6	0.4	0.6	0.2	0.3	
2001						
March	1.1	1.4	1.4	1.0	1.1	na
June	0.3	0.7	0.7	0.8	0.8	
September	0.2	0.4	0.1	0.3	0.3	
December	0.5	1.3	0.8	1.3	0.9	
2002						
March	0.9	1.1	0.9	1.0	0.9	na
June	0.5	0.4	0.4	0.7	0.7	
September	1.1	0.7	0.8	0.8	0.7	
December	0.7	0.8	0.7	0.8	0.7	
2003						
March	1.3	1.6	1.6	1.1	1.3	na
June	-0.1	-0.3	-0.3	0.0	0.0	

% CHANGE FROM CORRESPONDING QUARTER OF PREVIOUS YEAR

1999						
June	0.7	1.2	1.4	0.4	1.1	na
September	1.2	1.5	1.7	1.1	1.7	
December	1.3	1.5	1.9	1.1	1.8	
2000						
March	2.7	2.6	3	2.4	2.8	na
June	3.4	2.9	3.4	2.8	3.2	
September	6.3	5.7	5.9	5.7	6.1	
December	6.5	5.7	5.8	5.5	5.8	
2001						
March	6.5	6.1	6.1	6.0	6.0	na
June	5.7	6.1	5.9	6.0	6.0	
September	2.1	2.9	2.8	2.3	2.5	
December	2.1	3.8	3.0	3.4	3.1	
2002						
March	1.9	3.5	2.5	3.4	2.9	na
June	2.2	3.2	2.3	3.3	2.8	
September	3.1	3.5	3.0	3.8	3.2	
December	3.2	3.0	2.9	3.3	3.0	
2003						
March	3.7	3.6	3.6	3.5	3.4	na
June	3.0	2.8	2.8	2.7	2.7	

(a) Base of each index: June quarter 1998 = 100.0.

(b) As published, base 1989-1990 = 100.0.

(c) CPI re-referenced to base of June quarter 1998 = 100.0 to facilitate longer-term comparisons with living cost indexes.

Over the twelve months to June 2003, changes in living costs ranged from a low of 2.7% (Self-funded retiree households) to a high of 3.0% (Employee households). The CPI rose by 2.7% over the same period. The change in living costs by household type for the most recent twelve months contrasts with the previous year (to June 2002) when Employee households experienced the lowest increase (2.2%) and Self-funded retirees experienced the highest increase (3.3%).

Over the five-year period covered by the indexes, Employee households experienced the lowest increase in living costs of 15.8% and Age pensioner households the highest increase of 17.2%. These outcomes compare with the increase in the CPI over the period of 16.8%.

Changes over the last 12 months in the price indexes at the equivalent of the CPI commodity group level are presented in table 2 along with corresponding data for the CPI. Differences in the price experiences of household types at the group level reflect differences in expenditure weights at the lower levels, differences in weights at the state level<sup>2</sup> and differences in prices faced by some household types. Some of these impacts are discussed below.

**TABLE 2: CHANGE IN LIVING COST INDEXES BY COMMODITY GROUP JUNE QUARTER 2002 TO JUNE QUARTER 2003**

Commodity group	Household type				CPI
	Employee	Age pensioner	Other government transfer recipient	Self-funded retiree	
PERCENTAGE CHANGE					
Food	4.5	4.6	4.8	4.5	4.4
Alcohol and tobacco	3.0	3.1	3.5	2.7	3.0
Clothing and footwear	-0.2	-0.2	0.1	-0.2	0.0
Housing(a)	3.1	4.4	3.1	4.3	4.1
Household furnishings, supplies and services	0.9	0.9	0.6	1.2	0.9
Health	7.5	7.3	6.4	8.3	7.5
Transportation	-0.1	-0.1	-0.2	-0.1	0.1
Communication	2.5	2.9	2.1	3.2	2.4
Recreation	0.0	0.7	-0.6	1.1	0.3
Education	5.0	3.8	4.5	4.9	5.0
Miscellaneous(b)	9.4	2.6	7.0	2.4	3.5
Total	3.0	2.8	2.8	2.7	2.7

(a) House purchases are included in the CPI but excluded from the population subgroup indexes.

(b) Includes interest charges and general insurance. Interest charges are excluded from the CPI and general insurance is calculated on a different basis.

At the group level the most noticeable difference in price movements by household type was recorded for Miscellaneous. This commodity group includes interest charges, insurance and child care. Increases in interest charges on home loans (reflecting rising house prices) in conjunction

with the greater weight interest charges have in the expenditures of Employee households, resulted in a rise of 9.4% in the index for Miscellaneous for these households. Also, child care costs rose strongly in this period. On the other hand, as Age pensioner and Self-funded retirees have little expenditure on interest charges and child care, they experienced more moderate overall increases in prices for this commodity group.

For most other commodity groups the differences in prices movements are small. However, a couple of observations are warranted. The higher increase in the Health index for Self-funded retiree households reflects in part their high level of health insurance coverage and increases in fund membership fees. In the case of Housing, the lower increases for Employee and Other government transfer recipient households largely reflect their higher relative expenditure on rents. Rents increased more slowly than prices of other commodities in this group such as property rates, electricity and gas (noting that house purchase is excluded from the living cost indexes).

## CONCLUSIONS

These analytical indexes have been designed specifically to answer the question:

**'By how much would after tax money incomes need to change to allow households to purchase the same quantity of consumer goods and services as purchased in the base period?'**

The key issues the indexes can address are whether there are significant differences in the living cost experiences among household types and whether the CPI is an adequate proxy for changes in living costs.

In the previous studies it was concluded that changes in living costs had been broadly similar across the selected household types. The extension of the analysis to June 2003 is generally consistent with those earlier conclusions, although perceptions as to what are significant differences may vary between analysts. Further, it could be argued that the CPI provides a reasonable estimate of changes in living costs for each of the selected household types over this period.

Again it is cautioned that these indexes have been constructed to reflect the experiences of population groups as a whole, and they may not reflect the experiences of any individual household. In this regard it is particularly important to note that no such index can be expected to reflect the changes in living costs experienced by households as a direct consequence of their moving through the life cycle (e.g. as a result of family formation and ageing).

## FURTHER INFORMATION

For more information about Analytical cost indexes, contact Bill Ferris on (02) 6252 6074 or email [bill.ferris@abs.gov.au](mailto:bill.ferris@abs.gov.au).

## ENDNOTES

1. 'Analytical Living Cost Indexes for Selected Australian Household Types', **Australian Economic Indicators, June 2001** (cat. no. 1350.0) and 'Analytical Living Cost indexes for Selected Australian Household Types: An Update', **Australian Economic Indicators, December 2002** (cat. no. 1350.0).

**2.** The CPI is compiled from price indexes at the capital city level using expenditures by the CPI population in those cities as weights. The state/territory expenditure weights for the living cost indexes have been derived by applying national average expenditure estimates by household type to the estimated number of households in each state/territory.

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